

THE OFFICE OF REGULATORY STAFF
SURREBUTTAL TESTIMONY & EXHIBITS
OF
CHRISTINA L. SEALE

April 16, 2018



DOCKET NO. 2017-28-S

**Application of Synergy Utilities, L.P. for Approval of
Sewer Rates, Terms and Conditions**

**SURREBUTTAL TESTIMONY AND EXHIBITS OF
CHRISTINA L. SEALE
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2017-28-S
IN RE: APPLICATION OF SYNERGY UTILITIES, L.P. FOR APPROVAL
OF SEWER RATES, TERMS AND CONDITIONS**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Christina L. Seale. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Senior Auditor, in the Audit Department of the South Carolina Office of Regulatory Staff (“ORS”).

Q. ARE YOU THE SAME CHRISTINA SEALE WHO PRESENTED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes. I pre-filed direct testimony reflecting ORS findings in this proceeding on April 2, 2018.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to certain issues raised in the rebuttal testimony of Synergy Utilities, L.P. (“Synergy” or “Company”) witness Keith Parnell regarding the Company’s rate case expenses and merger related expenses.

Q. WHAT IS ORS’S POSITION REGARDING THE UPDATED RATE CASE EXPENSES PROPOSED BY MR. PARNELL IN HIS REBUTTAL TESTIMONY?

1 A. Subsequent to the filing of ORS's direct testimony, the Company provided
2 additional invoices to ORS for rate case expenses incurred April 2017 through January
3 2018 that had not been previously provided by the Company. ORS reviewed the additional
4 invoices and calculated additional allowable rate case expenses of \$22,309. The updated
5 total proposed ORS adjustment 2G of \$35,562 is computed using total adjusted rate case
6 expenses of \$106,685, divided by three.

7 ORS also recognizes that the Company will continue to incur expenses up to and
8 through the hearing. ORS does not object to an additional update to rate case expenses
9 subject to ORS's verification.

10 Q. **WHAT IS ORS'S POSITION REGARDING MERGER COSTS AS PROPOSED BY**
11 **MR. PARNELL IN HIS REBUTTAL TESTIMONY?**

12 A. As of April 9, 2018, the Company had incurred \$51,102 of merger related expenses
13 based on ORS's review of invoices provided by the Company. ORS has not included
14 merger related expenses in its calculation of net income for margin for the Company.

15 Q. **DID THE STRUCTURE OF THE COMPANY'S BOOKS AND RECORDS FOR**
16 **THE TEST YEAR STREAMLINE OPERATIONS BASED ON ORS'S**
17 **EXAMINATION?**

18 A. No. Synergy maintained separate general ledgers and trial balances for Service
19 Territory 1 and Service Territory 2 during the test year, which represented the former
20 companies, Midlands Utilities, Inc. and Development Services, Inc. Synergy also allocated
21 expenses and assets between the two service territories during the test year and in its
22 application. Synergy's books and records also contained non-utility revenues and

1 expenses, which were removed from the application by the Company through accounting
2 and pro forma adjustments.

3 **Q. DID YOU UPDATE ANY OTHER ACCOUNTING AND PRO FORMA**
4 **ADJUSTMENTS IN YOUR SURREBUTTAL?**

5 **A.** Yes, I did. ORS updated all fall-out adjustments, which include state and federal
6 income taxes, interest on long-term debt, customer growth and cash working capital based
7 on the updated rate case expenses. In addition, ORS also updated Audit Exhibit CLS-9
8 that details the operating experience, operating margin and rate base at ORS proposed rates
9 for combined operations using a customer growth factor of .3492%, as shown on Exhibit
10 MPS-4, in the direct testimony and exhibits of ORS Utility Rates Department witness,
11 Matthew Schellinger. Customer growth adjustment 27 included in Audit Exhibit CLS-9
12 was calculated incorrectly. This has been corrected and reflected in Surrebuttal Audit
13 Exhibit CLS-9.

14 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

15 **A.** Yes, it does.

Synergy Utilities, L.P. Docket No. 2017-28-S
Operating Experience, Operating Margin and Rate Base
For the Test Year Ended June 30, 2017
Combined Operations

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(5) After Applicant's Proposed Increase \$
<u>Utility Operating Revenues:</u>					
Operating Revenues	1,303,249	36,826 (1)	1,340,075	241,335 (22)	1,581,410
Total Utility Operating Revenues	1,303,249	36,826	1,340,075	241,335	1,581,410
<u>Utility Operating Expenses:</u>					
Operating Expenses	1,124,178	(142,854) (2)	981,324	0	981,324
Depreciation and Amortization Expense	98,493	48,054 (3)	146,547	0	146,547
Utility Regulatory Assessment Fees	5,697	1,328 (4)	7,025	1,265 (23)	8,290
Property Taxes	78,115	(4,912) (5)	73,203	0	73,203
Payroll Taxes	34,754	(10,835) (6)	23,919	0	23,919
Other Taxes and Licenses	9,097	(1,184) (7)	7,913	724 (24)	8,637
Federal Income Taxes	0	9,639 (8)	9,639	47,750 (25)	57,389
State Income Taxes	0	2,416 (9)	2,416	11,967 (26)	14,383
Total Utility Operating Expenses	1,350,334	(98,348)	1,251,986	61,706	1,313,692
Total Operating Income (Loss)	(47,085)	135,174	88,089	179,629	267,718
Gains from Dispositions	14,500	(14,500) (10)	0	0	0
Interest and Dividend Income	28	(28) (11)	0	0	0
Non-Utility Income	227,383	(227,383) (12)	0	0	0
Miscellaneous Non-Utility Expenses	7,263	(7,263) (13)	0	0	0
Interest on Long-Term Debt	47,989	3,838 (14)	51,827	0	51,827
Interest on Customer Deposits	440	0	440	0	440
Amortization of Debt Discount & Expense	3,263	(3,263) (15)	0	0	0
Customer Growth	0	4,295 (16)	4,295	2,623 (27)	6,918
Net Income for Margin	135,871	(95,754)	40,117	182,252	222,369
Operating Margin	10.43%		2.99%		14.06%
<u>Original Cost Rate Base:</u>					
Gross Utility Plant in Service	3,540,555	35,417 (17)	3,575,972	0	3,575,972
Accumulated Depreciation of Plant in Service	(2,362,795)	398,982 (18)	(1,963,813)	0	(1,963,813)
Net Utility Plant in Service	1,177,760	434,399	1,612,159	0	1,612,159
Contributions in Aid of Construction	0	(4,535) (19)	(4,535)	0	(4,535)
Accumulated Deferred Income Taxes	0	0	0	0	0
Excess Tax Collection Liability	0	(22,650) (20)	(22,650)		(22,650)
Customer Deposits	(3,645)	0	(3,645)	0	(3,645)
Cash Working Capital	0	122,666 (21)	122,666	0	122,666
Total Rate Base	1,174,115	529,880	1,703,995	0	1,703,995

Synergy Utilities, L.P. Docket No. 2017-28-S
Operating Experience, Operating Margin and Rate Base
For the Test Year Ended June 30, 2017
Service Territory 1 Operations

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(5) After Applicant's Proposed Increase \$
<u>Utility Operating Revenues:</u>					
Operating Revenues	710,107	26,209 (1)	736,316	148,884 (22)	885,200
Total Utility Operating Revenues	710,107	26,209	736,316	148,884	885,200
<u>Utility Operating Expenses:</u>					
Operating Expenses	423,567	(77,425) (2)	346,142	0	346,142
Depreciation and Amortization Expense	71,711	29,512 (3)	101,223	0	101,223
Utility Regulatory Assessment Fees	2,854	1,006 (4)	3,860	780 (23)	4,640
Property Taxes	39,925	1,768 (5)	41,693	0	41,693
Payroll Taxes	13,532	(3,148) (6)	10,384	0	10,384
Other Taxes and Licenses	4,039	(765) (7)	3,274	447 (24)	3,721
Federal Income Taxes	0	38,595 (8)	38,595	29,458 (25)	68,053
State Income Taxes	0	9,673 (9)	9,673	7,383 (26)	17,056
Total Utility Operating Expenses	555,628	(784)	554,844	38,068	592,912
Total Operating Income (Loss)	154,479	26,993	181,472	110,816	292,288
Gains from Dispositions	14,500	(14,500) (10)	0	0	0
Interest and Dividend Income	0	0 (11)	0	0	0
Non-Utility Income	0	0 (12)	0	0	0
Miscellaneous Non-Utility Expenses	0	0 (13)	0	0	0
Interest on Long-Term Debt	31,876	4,404 (14)	36,280	0	36,280
Interest on Customer Deposits	0	0	0	0	0
Amortization of Debt Discount & Expense	0	0 (15)	0	0	0
Customer Growth	0	4,295 (16)	4,295	2,623 (27)	6,918
Net Income for Margin	137,103	12,384	149,487	113,439	262,926
Operating Margin	19.31%		20.30%		29.70%
<u>Original Cost Rate Base:</u>					
Gross Utility Plant in Service	2,187,479	115,013 (17)	2,302,492	0	2,302,492
Accumulated Depreciation of Plant in Service	(1,428,362)	289,336 (18)	(1,139,026)	0	(1,139,026)
Net Utility Plant in Service	759,117	404,349	1,163,466	0	1,163,466
Contributions in Aid of Construction	0	(4,535) (19)	(4,535)	0	(4,535)
Accumulated Deferred Income Taxes	0	0	0	0	0
Excess Tax Collection Liability	0	(7,953) (20)	(7,953)	0	(7,953)
Customer Deposits	(1,421)	0	(1,421)	0	(1,421)
Cash Working Capital	0	43,268 (21)	43,268	0	43,268
Total Rate Base	757,696	435,129	1,192,825	0	1,192,825

Surrebuttal Audit Exhibit CLS-3

Synergy Utilities, L.P. Docket No. 2017-28-S
Operating Experience, Operating Margin and Rate Base
For the Test Year Ended June 30, 2017
Service Territory 2 Operations

<u>Description</u>	(1) <u>Application Per Books</u> \$	(2) <u>Accounting & Pro Forma Adjustments</u> \$	(3) <u>After Accounting & Pro Forma Adjustments</u> \$	(4) <u>Applicant's Proposed Increase</u> \$	(5) <u>After Applicant's Proposed Increase</u> \$
<u>Utility Operating Revenues:</u>					
Operating Revenues	593,142	10,617 (1)	603,759	92,451 (22)	696,210
Total Utility Operating Revenues	<u>593,142</u>	<u>10,617</u>	<u>603,759</u>	<u>92,451</u>	<u>696,210</u>
<u>Utility Operating Expenses:</u>					
Operating Expenses	700,611	(65,429) (2)	635,182	0	635,182
Depreciation and Amortization Expense	26,782	18,542 (3)	45,324	0	45,324
Utility Regulatory Assessment Fees	2,843	322 (4)	3,165	485 (23)	3,650
Property Taxes	38,190	(6,680) (5)	31,510	0	31,510
Payroll Taxes	21,222	(7,687) (6)	13,535	0	13,535
Other Taxes and Licenses	5,058	(419) (7)	4,639	277 (24)	4,916
Federal Income Taxes	0	(28,956) (8)	(28,956)	18,292 (25)	(10,664)
State Income Taxes	0	(7,257) (9)	(7,257)	4,584 (26)	(2,673)
Total Utility Operating Expenses	<u>794,706</u>	<u>(97,564)</u>	<u>697,142</u>	<u>23,638</u>	<u>720,780</u>
Total Operating Income (Loss)	<u>(201,564)</u>	<u>108,181</u>	<u>(93,383)</u>	<u>68,813</u>	<u>(24,570)</u>
Gains from Dispositions	0	0 (10)	0	0	0
Interest and Dividend Income	28	(28) (11)	0	0	0
Non-Utility Income	227,383	(227,383) (12)	0	0	0
Miscellaneous Non-Utility Expenses	7,263	(7,263) (13)	0	0	0
Interest on Long-Term Debt	16,113	(566) (14)	15,547	0	15,547
Interest on Customer Deposits	440	0	440	0	440
Amortization of Debt Discount & Expense	3,263	(3,263) (15)	0	0	0
Customer Growth	0	0 (16)	0	0 (27)	0
Net Income for Margin	<u>(1,232)</u>	<u>(108,138)</u>	<u>(109,370)</u>	<u>68,813</u>	<u>(40,557)</u>
Operating Margin	<u>-0.21%</u>		<u>-18.11%</u>		<u>-5.83%</u>
<u>Original Cost Rate Base:</u>					
Gross Utility Plant in Service	1,353,076	(79,596) (17)	1,273,480	0	1,273,480
Accumulated Depreciation of Plant in Service	(934,433)	109,646 (18)	(824,787)	0	(824,787)
Net Utility Plant in Service	418,643	30,050	448,693	0	448,693
Contributions in Aid of Construction	0	0 (19)	0	0	0
Accumulated Deferred Income Taxes	0	0	0	0	0
Excess Tax Collection Liability	0	(14,697) (20)	(14,697)		(14,697)
Customer Deposits	(2,224)	0	(2,224)	0	(2,224)
Cash Working Capital	0	79,398 (21)	79,398	0	79,398
Total Rate Base	<u>416,419</u>	<u>94,751</u>	<u>511,170</u>	<u>0</u>	<u>511,170</u>

Synergy Utilities, L.P. Docket No. 2017-28-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2017

ORS Adj. #	Co. Adj. #	Description	\$ Combined Operations	\$ Service Territory 1	\$ Service Territory 2
<u>Accounting and Pro Forma Adjustments</u>					
(1)		<u>Operating Revenues</u>			
(1A)	(1)	To adjust residential revenue to reflect number of customers billed at end of year and reclassify apartment revenue from commercial to residential. This adjustment was provided by the Utility Rates Department.			
		Per ORS	227,281	210,487	16,794
		Per Company	16,519	210,486	(193,967)
(1B)	(1)	To adjust commercial revenue to reflect number of customers billed at end of year and reclassify apartment revenue from commercial to residential. This adjustment was provided by the Utility Rates Department.			
		Per ORS	(187,678)	(188,258)	580
		Per Company	(204,118)	(204,421)	303
(1C)	(1)	To adjust pass-through revenue to reflect number of customers billed at the end of the test year. Service Territory 2 collects treatment revenue on behalf of the treatment providers. This adjustment was provided by the Utility Rates Department.			
		Per ORS	21,706	0	21,706
		Per Company	0	0	0
(1D)	(1)	To reflect adjustments to miscellaneous revenue at the end of the test year. This adjustment was provided by the Utility Rates Department.			
		Per ORS	4,822	4	4,818
		Per Company	0	0	0
(1E)	(2)	To remove revenue from intercompany rental of building.			
		Per ORS	(9,600)	0	(9,600)
		Per Company	(9,600)	0	(9,600)

Synergy Utilities, L.P. Docket No. 2017-28-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2017

ORS Adj. #	Co. Adj. #	Description	\$ Combined Operations	\$ Service Territory 1	\$ Service Territory 2
(1F)		To remove revenue from intercompany rental of belt press. Synergy owns the belt press, which will be allocated between territories on the depreciation schedule. See ORS Adjustment 2I.			
		Per ORS	(31,030)	0	(31,030)
		Per Company	0	0	0
(1G)		To adjust revenue for the amortization of excess taxes collected by the Company due to the Tax Cuts and Jobs Act. This adjustment was provided by the Utility Rates Department.			
		Per ORS	11,325	3,976	7,349
		Per Company	0	0	0
(1)		Total Per ORS	36,826	26,209	10,617
		Total Per Company	(197,199)	6,065	(203,264)
(2)		<u>Operating Expenses</u>			
(2A)	(3)	To adjust salaries based on salary increase and to allocate salaries between territories.			
		Per ORS	(24,952)	18,493	(43,445)
		Per Company	(58,270)	12,369	(70,639)
(2B)	(3)	To annualize officer salaries.			
		Per ORS	(116,674)	(61,308)	(55,366)
		Per Company	(40,760)	(42,329)	1,569
(2C)	(4)	To adjust employee benefits based on most current annual premium and to allocate pension and benefits using allocations used in the salary adjustments.			
		Per ORS	3,761	(20,242)	24,003
		Per Company	2,878	2,878	0

Synergy Utilities, L.P. Docket No. 2017-28-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2017

ORS Adj. #	Co. Adj. #	Description	\$ Combined Operations	\$ Service Territory 1	\$ Service Territory 2
(2D)	(5)	To adjust purchased wastewater treatment costs associated with the increase in cost from the treatment providers. This adjustment was provided by the Utility Rates Department.			
		Per ORS	22,164	0	22,164
		Per Company	(206,474)	0	(206,474)
(2E)	(6)	To reclassify accounting expenses paid in the test year as rate case expenses and remove accounting expenses outside the test year.			
		Per ORS	(25,856)	(4,709)	(21,147)
		Per Company	(24,757)	(4,903)	(19,854)
(2F)	(6)	To correctly classify legal expenses paid in the test year as rate case expenses or as test year legal expenses for normal day to day operations. Also, to remove merger related expenses.			
		Per ORS	(2,761)	3,767	(6,528)
		Per Company	(8,740)	0	(8,740)
(2G)	(7)	To amortize current rate case expenses over a 3 years.			
		Per ORS	35,562	22,404	13,158
		Per Company	34,317	21,654	12,663
(2H)		To remove nonallowable expenses consisting of merger related expenses, expenses outside the test year, and expenses with no supporting documentation.			
		Per ORS	(3,068)	0	(3,068)
		Per Company	0	0	0
(2I)		To remove rental expenses for belt press owned by the Company and included on the depreciation schedule. See ORS Adjustment 1F.			
		Per ORS	(31,030)	(31,030)	0
		Per Company	0	0	0

Synergy Utilities, L.P. Docket No. 2017-28-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2017

ORS Adj. #	Co. Adj. #	Description	\$ Combined Operations	\$ Service Territory 1	\$ Service Territory 2
(2J)		To allocate office rent expense.			
		Per ORS	0	(4,800)	4,800
		Per Company	0	0	0
(2)		Total Per ORS	(142,854)	(77,425)	(65,429)
		Total Per Company	(301,806)	(10,331)	(291,475)
(3)	(8)	<u>Depreciation and Amortization Expense</u>			
		To annualize depreciation and amortization expense for known and measurable plant in service. See Audit Exhibit CLS-5.			
		Per ORS	48,054	29,512	18,542
		Per Company	47,297	16,942	30,355
(4)	(9)	<u>Utility Regulatory Assessment Fees</u>			
		To adjust utility regulatory assessment fees after the accounting and pro forma adjustments using a factor of 0.005241690.			
		Per ORS	1,328	1,006	322
		Per Company	9	33	(24)
(5)		<u>Property Taxes</u>			
(5A)	(10)	To increase property taxes for an asset added at end of year.			
		Per ORS	1,768	1,768	0
		Per Company	1,768	1,768	0
(5B)	(11)	To decrease property taxes for a non-utility building.			
		Per ORS	(6,680)	0	(6,680)
		Per Company	(6,680)	0	(6,680)
(5)		Total Per ORS	(4,912)	1,768	(6,680)
		Total Per Company	(4,912)	1,768	(6,680)

Synergy Utilities, L.P. Docket No. 2017-28-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2017

ORS Adj. #	Co. Adj. #	Description	\$ Combined Operations	\$ Service Territory 1	\$ Service Territory 2
(6)	(12)	<u>Payroll Taxes</u> To adjust payroll taxes based on salary adjustments.			
		Per ORS	(10,835)	(3,148)	(7,687)
		Per Company	(7,608)	(2,185)	(5,423)
(7)		<u>Other Taxes and Licenses</u> To adjust corporate license fees after the accounting and pro forma adjustments using a factor of 0.003.			
		Per ORS	(1,184)	(765)	(419)
		Per Company	0	0	0
(8)	(13)	<u>Federal Income Taxes</u> To adjust federal income taxes after accounting and pro forma adjustments using a 21% tax rate.			
		Per ORS	9,639	38,595	(28,956)
		Per Company	(14,935)	35,951	(50,886)
(9)	(13)	<u>State Income Taxes</u> To adjust state income taxes after accounting and pro forma adjustments using a 5% tax rate.			
		Per ORS	2,416	9,673	(7,257)
		Per Company	(2,312)	5,565	(7,877)
(10)	(14)	<u>Gains from Dispositions</u> To remove insurance proceeds from theft loss.			
		Per ORS	(14,500)	(14,500)	0
		Per Company	(14,500)	(14,500)	0
(11)	(15)	<u>Interest and Dividend Income</u> To remove non-utility income.			
		Per ORS	(28)	0	(28)
		Per Company	(28)	0	(28)

Synergy Utilities, L.P. Docket No. 2017-28-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2017

ORS Adj. #	Co. Adj. #	Description	\$ Combined Operations	\$ Service Territory 1	\$ Service Territory 2
(12)	(15)	<u>Non-Utility Income</u> To remove non-utility income.			
		Per ORS	(227,383)	0	(227,383)
		Per Company	(227,383)	0	(227,383)
(13)	(15)	<u>Miscellaneous Non-Utility Expenses</u> To remove non-utility expenses.			
		Per ORS	(7,263)	0	(7,263)
		Per Company	(7,263)	0	(7,263)
(14)	(16)	<u>Interest on Long-Term Debt</u> To synchronize interest expense with the portion of rate base financed by debt.			
		Per ORS	3,838	4,404	(566)
		Per Company	17,282	11,137	6,145
(15)		<u>Amortization of Debt Discount and Expense</u> To remove the amortization of debt expense. Debt expense is included in the calculation of the weighted average cost of debt for the calculation of interest expense.			
		Per ORS	(3,263)	0	(3,263)
		Per Company	0	0	0
(16)		<u>Customer Growth</u> To adjust for customer growth after the accounting and pro forma adjustments. The growth factor of 2.3669% for Service Territory 1 was computed by the Utility Rates Department.			
		Per ORS	4,295	4,295	0
		Per Company	0	0	0

Synergy Utilities, L.P. Docket No. 2017-28-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2017

ORS Adj. #	Co. Adj. #	Description	\$ Combined Operations	\$ Service Territory 1	\$ Service Territory 2
(17)		<u>Gross Utility Plant in Service</u> To adjust gross plant in service as of 5/31/18. See Audit Exhibit CLS-5.			
		Per ORS	35,417	115,013	(79,596)
		Per Company	0	0	0
(18)		<u>Accumulated Depreciation</u> To adjust accumulated depreciation as of 5/31/18. See Audit Exhibit CLS-5.			
		Per ORS	398,982	289,336	109,646
		Per Company	0	0	0
(19)		<u>Contributions in Aid of Construction</u> To adjust net contributions in aid of construction as of 5/31/18. See Audit Exhibit CLS-5.			
		Per ORS	(4,535)	(4,535)	0
		Per Company	0	0	0
(20)		<u>Excess Tax Collection Liability</u> To adjust rate base for the creation of an excess tax collection liability resulting from lower federal tax rates.			
		Per ORS	(22,650)	(7,953)	(14,697)
		Per Company	0	0	0
(21)		<u>Cash Working Capital</u> To adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit CLS-7.			
		Per ORS	122,666	43,268	79,398
		Per Company	0	0	0

Synergy Utilities, L.P. Docket No. 2017-28-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2017

ORS Adj. #	Co. Adj. #	Description	\$ Combined Operations	\$ Service Territory 1	\$ Service Territory 2
<u>Applicant's Proposed Increase</u>					
(22)		<u>Operating Revenues</u>			
(22A)	(17)	To adjust residential revenues for ORS's recalculation of the Company's proposed rate increase.			
		Per ORS	124,129	55,911	68,218
		Per Company	121,131	55,912	65,219
(22B)	(17)	To adjust commercial revenues for ORS's recalculation of the Company's proposed rate increase.			
		Per ORS	111,716	92,501	19,215
		Per Company	111,459	92,313	19,146
(22C)	(1)	To reflect adjustments to miscellaneous revenue for the proposed increase.			
		Per ORS	5,490	472	5,018
		Per Company	0	0	0
(22)		Total Per ORS	241,335	148,884	92,451
(17)		Total Per Company	232,590	148,225	84,365
(23)	(18)	<u>Utility Regulatory Assessment Fees</u> To adjust utility regulatory assessment fees associated with the proposed increase using a factor of 0.005241690.			
		Per ORS	1,265	780	485
		Per Company	1,255	800	455
(24)	(19)	<u>Other Taxes and Licenses</u> To adjust corporate license fees associated with the proposed increase using a factor of 0.003.			
		Per ORS	724	447	277
		Per Company	698	445	253

Synergy Utilities, L.P. Docket No. 2017-28-S
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended June 30, 2017

ORS Adj. #	Co. Adj. #	Description	\$ Combined Operations	\$ Service Territory 1	\$ Service Territory 2
(25)	(20)	<u>Federal Income Taxes</u> To adjust federal income taxes for the Company's proposed increase using a 21% tax rate. See Audit Exhibit CLS-6.			
		Per ORS	47,750	29,458	18,292
		Per Company	74,495	47,474	27,021
(26)	(20)	<u>State Income Taxes</u> To adjust state income taxes for the Company's proposed increase using a 5% tax rate. See Audit Exhibit CLS-6.			
		Per ORS	11,967	7,383	4,584
		Per Company	11,532	7,349	4,183
(27)	(21)	<u>Customer Growth</u> To adjust for customer growth for the proposed increase. The growth factor of 2.3669% for Service Territory 1 was computed by the Utility Rates Department.			
		Per ORS	2,623	2,623	0
		Per Company	3,599	3,599	0

Synergy Utilities, L.P. Docket No. 2017-28-S
For the Test Year Ended June 30, 2017

Service Territory 1 Operations
Depreciation and Amortization Expense Adjustments

UTILITY PLANT IN SERVICE

Asset	Property Description	Date In Service	Cost	Allocation	Allocated Amount	Service Life	Depreciation & Amort. Rate	Depreciation & Amortization Expense	Accumulated Deprec & Amort. as of 5/31/18
15	LAND	01/01/88	40,000	100%	40,000	0	0.00%	-	-
1	SEWER SYSTEM - NET	01/01/88	120,000	100%	120,000	32	3.13%	3,756	113,932
5	GENERAL PLANT - COMPUTER	11/01/88	1,500	100%	1,500	6	FD	-	1,500
4	1999 FORD F-150 (SERVICE TERRITORY 1 - 33%)	06/15/02	23,249	33%	7,672	6	FD	-	7,672
6	BR-EQUIPMENT SYSTEMS (Adjusted by ORS) *	01/01/03	428,699	100%	428,699	18	5.56%	23,836	365,486
6	BR-EQUIPMENT SYSTEMS (Adjusted by ORS) *	01/01/03	170,569	100%	170,569	18	5.56%	9,484	145,422
6	Less dispositions: BR-EQUIPMENT SYSTEMS	01/01/03	(170,569)	100%	(170,569)	-	-	-	(170,569)
26	BR-EQUIPMENT SYSTEMS - CASE BOBCAT (Adjusted by ORS) *	01/01/03	30,457	100%	30,457	18	5.56%	1,693	25,959
26	Less dispositions: BR-EQUIP. SYSTEMS-CASE BOBCAT	01/01/03	(30,457)	100%	(30,457)	-	-	-	(30,457)
3	Add Insurance Proceeds: BR-EQUIP. SYSTEMS-CASE BOBCAT (ORS)	-	-	-	-	-	-	-	14,500
23	CAT BACKHOE (SERVICE TERRITORY 1 - 10%)	10/15/03	53,550	10%	5,355	12	FD	-	5,355
8	OFFICE DESK	03/01/04	300	100%	300	15	6.67%	20	283
9	CASE GENERATOR	08/31/04	24,468	100%	24,468	20	5.00%	1,223	16,820
10	2008 DODGE PICKUP	12/30/05	27,556	100%	27,556	6	FD	-	27,556
18	TOSHIBA GENERATOR	08/05/06	1,270	100%	1,270	20	5.00%	64	780
19	DIGESTOR/SLUDGE (20)	05/17/07	3,221	100%	3,221	20	5.00%	161	1,771
16	DIGESTOR/SLUDGE (32)	12/13/07	5,189	100%	5,189	32	3.13%	162	1,691
20	DIGESTOR/SLUDGE (15)	12/17/07	3,670	100%	3,670	15	6.67%	245	2,550
11	DIGESTOR/SLUDGE (35)	12/27/07	106,752	100%	106,752	35	2.86%	3,053	31,803
12	KOBELCO EXCAVATOR (SERVICE TERRITORY 1 - 75%)	12/31/07	119,967	75%	89,975	12	8.33%	7,495	78,073
17	BR-PLANT/SEWER SYSTEM	07/01/08	1,102,979	100%	1,102,979	32	3.13%	34,523	339,478
13	DIGESTOR/SLUDGE (18)	11/05/08	122,330	100%	122,330	18	5.56%	6,802	64,616
14	BELT PRESS (SERVICE TERRITORY 1-96.5%) (Allocated by ORS)	06/30/10	133,750	96.5%	129,069	15	6.67%	8,609	68,154
25	2008 DODGE RAM (SERVICE TERRITORY 1 - 50%)	10/24/12	37,896	50%	18,948	6	16.67%	3,159	17,637
21	JOHN DEERE MOWER (SERVICE TERRITORY 1 - 75%)	06/19/13	10,486	75%	7,865	12	8.33%	655	3,221
27	BR PUMP	08/22/13	2,550	100%	2,550	18	5.56%	142	768
21	GENERATOR 125-149 KVA MAGNUM PRO	12/09/15	14,370	100%	14,370	20	5.00%	719	1,797
27	CASE SKID STEER	06/30/17	38,754	100%	38,754	12	8.33%	3,228	3,228
	Totals Proposed by ORS		2,422,506		2,302,492			109,029	1,139,026
	Less: Per Books				2,187,479			71,711	1,428,362
	ORS Proposed Accounting & Pro Forma Adjustments				115,013			37,318	(289,336)
	ORS Adjustment (#)				(17)				(18)

Contributions in Aid of Construction (Cumulative Tap Fees) (Added by ORS)	01/01/88	(249,404)	100%	(249,404)	32	3.13%	(7,806)	(244,869)
ORS Proposed Accounting & Pro Forma Adjustments							29,512	
ORS Adjustment (#)		(19)					(3)	(19)

* Total Bush River (BR) Equipment Systems was \$629,725 in the last rate case.
FD = Fully Depreciated

Synergy Utilities, L.P. Docket No. 2017-28-S
For the Test Year Ended June 30, 2017

Service Territory 2 Operations
Depreciation and Amortization Expense Adjustments

UTILITY PLANT IN SERVICE

Asset	Property Description	Date In Service	Cost	Allocation	Allocated Amount	Service Life	Depreciation & Amort. Rate	Depreciation & Amortization Expense	Accumulated Deprec & Amort. as of 5/31/18
79	LAND	07/01/78	8,000	100%	8,000	0	0.00%	-	-
6	FLOW METER	08/01/86	3,087	100%	3,087	32	FD	-	3,087
11	CONCRETE FENCING	05/01/88	1,254	100%	1,254	25	FD	-	1,254
16	PUMP	12/01/91	840	100%	840	15	FD	-	840
21	FLOORING OFFICE	01/01/94	3,243	100%	3,243	10	FD	-	3,243
24	AC - OFFICE	07/01/95	3,260	100%	3,260	15	FD	-	3,260
28	SEWER TAPS - VANARSDALE	11/01/95	63,000	100%	63,000	15	FD	-	63,000
26	VAN ARSDALE LINE	11/01/95	14,997	100%	14,997	45	2.22%	333	7,963
30	OFFICE & LAB EQUIPMENT	12/01/96	21,686	100%	21,686	15	FD	-	21,686
31	PRESSURE TRUCK	02/01/97	67,543	100%	67,543	6	FD	-	67,543
32	BACKHOE	03/01/97	25,850	100%	25,850	12	FD	-	25,850
42	PVC PIPE - 6 IN O RING	10/01/97	19,505	100%	19,505	18	FD	-	19,505
34	PUMPS-ORANGEBURG	11/01/99	20,685	100%	20,685	18	FD	-	20,685
37	CONTROL PANEL - ORANGEBURG	01/01/00	6,042	100%	6,042	18	FD	-	6,042
38	PIPE-WINNSBORO	03/01/00	18,021	100%	18,021	30	3.33%	600	11,351
40	BORING TOOL	05/01/00	8,080	100%	8,080	15	FD	-	8,080
39	TAPS-ORANGEBURG	05/01/00	18,250	100%	18,250	15	FD	-	18,250
41	LINE-WINNSBORO	11/01/00	11,263	100%	11,263	30	3.33%	375	7,095
84	1999 FORD F-150 (SERVICE TERRITORY 2 - 67%)	06/15/02	23,249	67%	15,577	6	FD	-	15,577
45	BENSHAW DRIVE - HOBGOOD	08/01/03	5,197	100%	5,197	18	5.56%	289	4,599
85	CAT BACKHOE (SERVICE TERRITORY 2 - 90%)	10/15/03	53,550	90%	48,195	12	FD	-	48,195
46	PUMP - INTERSTATE UTILITIES	12/01/03	1,771	100%	1,771	15	FD	-	1,771
47	TECO MOTOR	02/01/04	534	100%	534	15	FD	-	534
48	PUMP - ELECTRIC MOTOR AND REPAIR	03/01/04	3,393	100%	3,393	15	6.67%	226	3,375
49	SEWAGE PUMP - HUGHES	03/01/04	844	100%	844	15	6.67%	56	839
50	PUMP - PETE DUTY	04/01/04	1,092	100%	1,092	15	FD	-	1,092
52	PUMP - HUGHES	05/01/04	2,828	100%	2,828	15	6.67%	189	2,814
73	COMPUTER & SOFTWARE	05/01/05	6,350	100%	6,350	6	FD	-	6,350
66	2006 TOYOTA	06/01/06	26,214	100%	26,214	6	FD	-	26,214
74	PUMP STATION ** (Adjusted by ORS)	05/10/07	0	100%	-	15	6.67%	-	-

Synergy Utilities, L.P. Docket No. 2017-28-S
For the Test Year Ended June 30, 2017

Service Territory 2 Operations
Depreciation and Amortization Expense Adjustments

UTILITY PLANT IN SERVICE									
Asset	Property Description	Date In Service	Cost	Allocation	Allocated Amount	Service Life	Depreciation & Amort. Rate	Depreciation & Amortization Expense	Accumulated Deprec & Amort. as of 5/31/18
75	ULTRAVIOLET DISINFECTANT UNIT ** (Adjusted by ORS)	07/01/07	549,071	100%	549,071	25	4.00%	21,963	239,761
86	KOBELCO EXCAVATOR (SERVICE TERRITORY 2 - 25%)	12/31/07	119,967	25%	29,992	12	8.33%	2,498	26,024
60	CHEVY TRUCK	02/11/08	15,622	100%	15,622	6	FD	-	15,622
61	DUMP TRUCK	07/01/08	35,300	100%	35,300	12	8.33%	2,940	29,159
53	COPIER	07/01/09	3,788	100%	3,788	6	FD	-	3,788
54	UTILITY PLANT WIP COMPLETE	01/01/10	28,890	100%	28,890	32	3.13%	904	7,610
55	VARNVILLE PUMPING EQUIPMENT	05/27/10	7,761	100%	7,761	25	4.00%	310	2,483
56	BELT PRESS (SERVICE TERRITORY 2 - 3.5%) (Allocated by ORS)	06/30/10	133,750	3.5%	4,681	15	6.67%	312	2,472
71	LOW BOY	06/30/10	37,000	100%	37,000	12	8.33%	3,082	24,400
72	TRUCK T-800 KENWORTH	06/30/10	58,400	100%	58,400	12	8.33%	4,865	38,513
57	NORTHWOOD ESTATE PROJECT	12/21/10	5,040	100%	5,040	15	6.67%	336	2,493
58	ADDL SALES TAX ON EQUIPMENT (Adjusted by ORS)	07/01/11	23,947	100%	23,947	18	5.56%	1,331	9,209
87	2008 DODGE RAM (SERVICE TERRITORY 2 - 50%)	10/24/12	37,896	50%	18,948	6	16.67%	3,159	17,637
65	RAINTREE PHASE II	06/05/13	9,963	100%	9,963	32	3.13%	312	1,557
88	JOHN DEERE MOWER (SERVICE TERRITORY 2 - 25%)	06/19/13	10,486	25%	2,621	12	8.33%	218	1,080
59	VANARSDALE PUMP STATION	06/27/13	1,175	100%	1,175	25	4.00%	47	231
76	OFFICE HEATER	11/19/13	1,664	100%	1,664	15	6.67%	111	504
81	EBARA SEWAGE PUMP	07/14/15	1,903	100%	1,903	15	6.67%	127	370
82	PUMPS (2) VOLUTE	10/13/15	9,220	100%	9,220	15	6.67%	615	1,486
83	EBARA SEWAGE PUMP	01/28/16	1,893	100%	1,893	15	6.67%	126	294
	Totals Proposed by ORS		1,532,364		1,273,480			45,324	824,787
	Less: Per Books				1,353,076			26,782	934,433
	ORS Proposed Accounting & Pro Forma Adjustments				(79,596)			18,542	(109,646)
	ORS Adjustment (#)				(17)			(3)	(18)

** Book cost was trued up to actual supported costs incurred.

Surrebuttal Audit Exhibit CLS-6

Synergy Utilities, L.P. Docket No. 2017-28-S
Computation of Income Taxes
For the Test Year Ended June 30, 2017

After Accounting & Pro Forma Adjustments			
	\$ Combined Operations	\$ Service Territory 1	\$ Service Territory 2
Operating Revenues	1,340,075	736,316	603,759
Operating Expenses	1,239,931	506,576	733,355
Net Operating Income Before Taxes	100,144	229,740	(129,596)
Less: Annualized Interest Expense	51,827	36,280	15,547
Taxable Income - State	48,317	193,460	(145,143)
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	2,416	9,673	(7,257)
Less: State Income Taxes Per Book	0	0	0
ORS State Income Tax Adjustment #9	2,416	9,673	(7,257)
Taxable Income - Federal	45,901	183,787	(137,886)
Federal Income Taxes %	21.0%	21.0%	21.0%
Federal Income Taxes	9,639	38,595	(28,956)
Less: Federal Income Taxes Per Book	0	0	0
ORS Federal Income Tax Adjustment #8	9,639	38,595	(28,956)
After Applicant's Proposed Increase			
	\$ Combined Operations	\$ Service Territory 1	\$ Service Territory 2
Operating Revenues	1,581,410	885,200	696,210
Operating Expenses	1,241,920	507,803	734,117
Net Operating Income Before Taxes	339,490	377,397	(37,907)
Less: Annualized Interest Expense	51,827	36,280	15,547
Taxable Income - State	287,663	341,117	(53,454)
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	14,383	17,056	(2,673)
Less: State Income Taxes As Adjusted	2,416	9,673	(7,257)
ORS State Income Tax Adjustment #26	11,967	7,383	4,584
Taxable Income - Federal	273,280	324,061	(50,781)
Federal Income Taxes %	21.0%	21.0%	21.0%
Federal Income Taxes	57,389	68,053	(10,664)
Less: Federal Income Taxes As Adjusted	9,639	38,595	(28,956)
ORS Federal Income Tax Adjustment #25	47,750	29,458	18,292

Surrebuttal Audit Exhibit CLS-7

Synergy Utilities, L.P. Docket No. 2017-28-S
Cash Working Capital Allowance
For the Test Year Ended June 30, 2017

After Accounting & Pro Forma Adjustments			
	\$ Combined Operations	\$ Service Territory 1	\$ Service Territory 2
Operating Expenses	981,324	346,142	635,182
Allowable Rate	<u>12.50%</u>	<u>12.50%</u>	<u>12.50%</u>
Computed Cash Working Capital	122,666	43,268	79,398
Less: Cash Working Capital - Application Per Books	<u>0</u>	<u>0</u>	<u>0</u>
ORS Cash Working Capital Adjustment #21	<u>122,666</u>	<u>43,268</u>	<u>79,398</u>

Combined Operations

Description	Capital Structure	Application Per Books				After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
		Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *
Long-Term Debt	\$ 1,059,347	55.00%	5.53%	3.04%	\$ 35,711	\$ 937,197	5.53%	3.04%	\$ 51,827	\$ 937,197	5.53%	3.04%	\$ 51,827
Members' Equity	866,739	45.00%	28.04%	12.62%	148,149	766,798	5.23%	2.35%	40,117	766,798	29.00%	13.05%	222,369
Totals	\$ 1,926,086	100.00%	15.66%		\$ 183,860	\$ 1,703,995		5.39%	\$ 91,944	\$ 1,703,995		16.09%	\$ 274,196

Service Territory 1 Operations

Description	Capital Structure	Application Per Books				After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
		Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *
Long-Term Debt	\$ 1,059,347	55.00%	5.53%	3.04%	\$ 23,045	\$ 656,054	5.53%	3.04%	\$ 36,280	\$ 656,054	5.53%	3.04%	\$ 36,280
Members' Equity	866,739	45.00%	42.80%	19.26%	145,934	536,771	27.85%	12.53%	149,487	536,771	48.98%	22.04%	262,926
Totals	\$ 1,926,086	100.00%	22.30%		\$ 168,979	\$ 1,192,825		15.57%	\$ 185,767	\$ 1,192,825		25.08%	\$ 299,206

Service Territory 2 Operations

Description	Capital Structure	Application Per Books				After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
		Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return *
Long-Term Debt	\$ 1,059,347	55.00%	5.53%	3.04%	\$ 12,665	\$ 281,144	5.53%	3.04%	\$ 15,547	\$ 281,144	5.53%	3.04%	\$ 15,547
Members' Equity	866,739	45.00%	1.18%	0.53%	2,216	230,027	-47.55%	-21.40%	(109,370)	230,027	-17.63%	-7.93%	(40,557)
Totals	\$ 1,926,086	100.00%	3.57%		\$ 18871	\$ 1,115		18.36%	\$ (93,823)	\$ 1,115		-4.89%	\$ (25,010)

* Income for return is calculated using "Net Income for Margin" plus "Interest on Long-Term Debt" from Audit Exhibits CLS-1, CLS-2 and CLS-3.

Synergy Utilities, L.P. Docket No. 2017-28-S
Operating Experience, Operating Margin and Rate Base at ORS Proposed Rates
For the Test Year Ended June 30, 2017
Combined Operations

Description	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) ORS's Proposed Increase \$	(5) After Applicant's Proposed Increase \$
<u>Utility Operating Revenues:</u>					
Operating Revenues	1,303,249	36,826 (1)	1,340,075	201,316 (22)	1,541,391
Total Utility Operating Revenues	1,303,249	36,826	1,340,075	201,316	1,541,391
<u>Utility Operating Expenses:</u>					
Operating Expenses	1,124,178	(142,854) (2)	981,324	0	981,324
Depreciation and Amortization Expense	98,493	48,054 (3)	146,547	0	146,547
Utility Regulatory Assessment Fees	5,697	1,328 (4)	7,025	1,055 (23)	8,080
Property Taxes	78,115	(4,912) (5)	73,203	0	73,203
Payroll Taxes	34,754	(10,835) (6)	23,919	0	23,919
Other Taxes and Licenses	9,097	(1,184) (7)	7,913	604 (24)	8,517
Federal Income Taxes	0	9,639 (8)	9,639	39,832 (25)	49,471
State Income Taxes	0	2,416 (9)	2,416	9,983 (26)	12,399
Total Utility Operating Expenses	1,350,334	(98,348)	1,251,986	51,474	1,303,460
Total Operating Income (Loss)	(47,085)	135,174	88,089	149,842	237,931
Gains from Dispositions	14,500	(14,500) (10)	0	0	0
Interest and Dividend Income	28	(28) (11)	0	0	0
Non-Utility Income	227,383	(227,383) (12)	0	0	0
Miscellaneous Non-Utility Expenses	7,263	(7,263) (13)	0	0	0
Interest on Long-Term Debt	47,989	3,838 (14)	51,827	0	51,827
Interest on Customer Deposits	440	0	440	0	440
Amortization of Debt Discount & Expense	3,263	(3,263) (15)	0	0	0
Customer Growth	0	308 (16)	308	523 (27)	831
Net Income for Margin	135,871	(99,741)	36,130	150,365	186,495
Operating Margin	10.43%		2.70%		12.10%
<u>Original Cost Rate Base:</u>					
Gross Utility Plant in Service	3,540,555	35,417 (17)	3,575,972	0	3,575,972
Accumulated Depreciation of Plant in Service	(2,362,795)	398,982 (18)	(1,963,813)	0	(1,963,813)
Net Utility Plant in Service	1,177,760	434,399	1,612,159	0	1,612,159
Contributions in Aid of Construction	0	(4,535) (19)	(4,535)	0	(4,535)
Accumulated Deferred Income Taxes	0	0	0	0	0
Excess Tax Collection Liability	0	(22,650) (20)	(22,650)		(22,650)
Customer Deposits	(3,645)	0	(3,645)	0	(3,645)
Cash Working Capital	0	122,666 (21)	122,666	0	122,666
Total Rate Base	1,174,115	529,880	1,703,995	0	1,703,995